



TEACHER RETIREMENT SYSTEM OF TEXAS SUMMARY ANNUAL REPORT 2015



April 2016



MY SUPERHERO TEACHER! ART CONTEST

Look, up in the sky! It's a bird! It's a plane! No, it's my teacher! The Teacher Retirement System of Texas held a statewide art contest in the fall of 2015 open to K-5th graders attending TRS reporting entities such as public and charter schools.

The winning artwork, left, was featured on the cover of the agency's 2015 Comprehensive Annual Financial Report (CAFR) by third grader Natalie Martinez from Clark Elementary in Laredo's United Independent School District.

Natalie won first place for her drawing of her teacher, Mrs. Lisa Marie Garcia, as a pencil-wielding masked superhero painted with acrylics on poster board for the agency's "My Superhero Teacher" Statewide Art Contest.

In all, TRS received more than 3,500 entries from 181 schools across the state. An internal committee narrowed the entries to the top 50 so as not to overwhelm Facebook voters.

The 50 selected entries were posted to Facebook. With 29,301 views to the contest page, Facebook users narrowed down the entries to the 10 most popular, which were then sent to TRS Executive Director Brian Guthrie for final placement.

The 10 finalists for the contest and the honorable mention were also included in this year's CAFR. To view the over 3,500 contest entries, please visit the TRS website's art contest page.

FROM THE EXECUTIVE DIRECTOR

It is my pleasure to present you with the Teacher Retirement System of Texas' (TRS) *Summary Annual Report* for fiscal year 2015, our 78th year of operation.

We have prepared this summary of our full *Comprehensive Annual Financial Report* (CAFR) for fiscal year 2015 so you can read about the financial highlights of the past fiscal year. This is the first time that we have published a CAFR summary for those wishing to learn more about TRS developments over the past year. Our full report is posted on the Publications page of the TRS website.

During the past fiscal year, TRS membership grew to 1,459,243 participants. The trust fund saw slightly negative returns in the past year, consistent with a downturn in world markets. The fund ended the 2015 fiscal year with a net position of \$128.5 billion compared to \$132.8 billion at the close of the 2014 fiscal year.

Contribution increases and benefit changes approved by the 83rd Texas Legislature are enabling TRS to provide secure benefits for current and future retirees. See page 5 for more details.

In fiscal year 2015, we embarked on a program of auditing reporting entity reports in response to GASB accounting and AICPA auditing guidance. Our Internal Audit staff tested employer census data and controls for active members and are reviewing the following elements of that data: gender, dates of birth, dates of hire or years of service, eligible compensation, and termination or retirement dates. TRS auditors also tested eligibility and compensation for accuracy, completeness, and compliance with *TRS Laws & Rules*. Our Financial Reporting department gave presentations to reporting entities throughout the state to provide guidance for implementation of GASB 68.

The TRS Pension Trust Fund finished the year with an investment net value of \$127.9 billion, a decrease of \$4.2 billion after contributions and benefit payouts, from fiscal year 2014. For the 12-month period ended Aug. 31, 2015, the total portfolio had a return of -0.3 percent; however, annual rates of return for the five- and 10-year periods ending Aug. 31, 2015 were 9.6 percent and 6.2 percent, respectively.

We hope you find this new publication helpful in understanding the latest developments at your retirement system.



Brian K. Guthrie
Executive Director

“This is the first time that we have published a CAFR summary for those wishing to learn more about TRS developments over the past year.”

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\$128.5B

NET POSITION OF THE PENSION
TRUST FUND ENDING
THE 2015 FISCAL YEAR

“The 84th Texas Legislature enacted House Bill 2, a supplemental funding bill which provided biennial funding for TRS-Care in the amount of approximately \$768 million.”

PENSION FUND: Benefit Payments to TRS Retirees and their beneficiaries

During the past fiscal year, TRS paid pension benefit payments to 377,738 retirees and their beneficiaries totaling \$8.9 billion. These benefits were funded from a combination of cumulative investment income, member contributions and state and employer contributions. Not only does TRS provide great value to its members, but it also benefits Texans by adding significant dollars to the state and local economies.

Overview of Pension Trust Fund

The Teacher Retirement System of Texas (TRS or system) is a public employee retirement system (PERS) that operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a defined benefit retirement plan that is a qualified pension trust under Section 401 (a) of the Internal Revenue Code.

Overview of Health Benefit Plans

TRS administers retirement and related benefits to employees and beneficiaries of employees of the public, state-supported, educational institutions of

Texas. The system administers the *Texas Public School Retired Employees Group Insurance Program (TRS-Care)* and the *Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare)*.

TRS-Care is considered an employee benefit trust fund and provides health care coverage for certain persons (and their dependents) who retire under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575 and Texas Administrative Code, Title 34, Part 3, Chapter 41. The inception of the plan was fiscal year 1986.

TRS-ActiveCare provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance, which are provided to active members and retirees, are also accounted for in the fund. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41.

2015 TRS-Related Legislative Changes

The 84th Texas Legislature enacted House Bill 2, a supplemental funding bill which provided biennial funding for TRS-Care in the amount of approximately \$768 million. House Bill 2168 stipulated that monthly annuity payments be paid on the last working day of the month for which the payment accrues instead of the first working day of the subsequent month.

House Bill 2974 created a joint interim committee to study TRS-Care and TRS-ActiveCare.

Pension Trust Fund Funding Status

	2015	2014
Actuarial Accrued Liability	\$ 166,452,924,504	\$ 160,035,600,826
Actuarial Value of Assets	(133,485,187,642)	(128,397,777,855)
Unfunded Actuarial Accrued Liability	32,967,736,862	31,637,822,971
Funded Ratio	80.20%	80.20%

Funding Status of TRS Pension Fund

An important measure of the financial strength of a pension fund is the funding status. This is a measure of the assets held by the plan versus the future benefits that will be paid out. If projected future benefits exceed the assets, there is an unfunded liability.

As of Aug. 31, 2015, TRS had a funded ratio of 80.2 percent with an Unfunded Actuarial Accrued Liability (UAAL) of \$33 billion. The period of time necessary to amortize the unfunded liability has increased from 29.8 years to 33.3 years. Given that current contributions cannot amortize the unfunded liability in less than 31 years, the system does not currently meet the statutory definition for actuarial soundness. The increase in the period of time necessary to amortize the unfunded liability was anticipated and is partially due to the phasing in of contribution rate increases adopted by the 83rd Texas Legislature. While the increased contribution rates are an actuarial gain to the system, the phased-in approach has

partially contributed to the funding period and unfunded liability growth.

In 2013, the Legislature adopted Senate Bill 1458 that provided a stair-step increase in the member contribution rate from 6.4 percent in FY 2014 to 7.7 percent in FY 2017. The state contribution rate for FY 2015 was 6.8 percent, and in FY 2015 school districts that do not participate in Social Security began paying a 1.5 percent contribution rate to the system.

Also impacting the growth of the unfunded liability are lower than expected investment returns for FY 2015 and the adoption of new assumptions for mortality, inflation, real wage growth and payroll growth.

It is estimated that the unfunded liability and the funding period will both continue to increase over the next few years before beginning to once again decline. However, the funding period is anticipated to remain a finite number until the unfunded liability is amortized and the pension fund is fully funded.

UAAL: The amount, at any given time, by which future payment obligations exceed the present value of funds available to pay them

TRS VISION

Earning your trust every day.



TRS MISSION
Improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.

Financial: TRS tracks many complex financial data points throughout each fiscal year.

The following information represents financial highlights of budgets and appropriation administration for the fiscal year ended Aug. 31, 2015.

The administrative costs and capital asset outlay for each of the system's funds and programs are controlled by annual budgets approved by the board of trustees.

The Pension Trust Fund receives state contributions for retirement benefits from general revenue appropriations. In fiscal years 2015 and 2014, contributions were made by the State of Texas to the retirement system at the rate of 6.8 percent of the aggregate compensation paid to active retirement system members for each year. Although appropriated by the legislature, administrative expenses and capital outlays for the Pension Trust Fund are paid from the fund's Expense Account, and not from the state's General Fund.

The 83rd Texas Legislature enacted Senate Bill 1458 which reduced the annual interest paid on member account balances from five percent to two percent effective Sept. 1, 2014.

TRS-Care received contributions from the state's General Fund equal to one percent of salaries paid to public education employees in fiscal year 2015. Administrative expenses for this program are

paid from the trust fund. House Bill 2 provided an additional \$768 million in funding for TRS-Care. The funding was transferred in fiscal year 2015.

The two Enterprise Funds, TRS-ActiveCare and the 403(b) Administrative Program are supported by fees and receive no appropriations from the state for administrative expenses.

Effective Sept. 1, 1977, legislation authorized TRS to administer a governmental excess benefit arrangement under section 415(m) of the Internal Revenue Code of 1986 (26 U.S.C.). Contributions to this arrangement are made from the state's general revenue appropriations. They yield no net position; therefore, for reporting purposes only the contributions and benefits are reflected in the Statement of Changes in Net Position for the Pension Fund.

Pension Trust Fund Statement of Net Position

(Dollars in Thousands)

	Fiscal Year 2015	Fiscal Year 2014
Total Assets	\$149,780,062	\$157,261,707
Total Liabilities	21,241,356	24,482,464
Total Net Position Restricted for Pensions	\$128,538,706	\$132,779,243

Statement of Changes in Net Position

(Dollars in Thousands)

	Fiscal Year 2015	Fiscal Year 2014
Total Additions	\$5,207,749	\$24,474,684
Total Deductions	9,448,286	9,083,585
Change in Net Position	(\$4,240,537)	\$15,391,099

TRS-Care Statement of Net Position

(Dollars in Thousands)

	Fiscal Year 2015	Fiscal Year 2014
Total Assets	\$1,134,174	\$ 594,921
Total Liabilities	161,255	136,981
Total Net Position	\$ 972,919	\$ 457,940

Statement of Changes in Net Position

(Dollars in Thousands)

	Fiscal Year 2015	Fiscal Year 2014
Total Additions	\$2,179,310	\$1,330,966
Total Deductions	1,664,331	1,424,074
Change in Net Position	\$ 514,979	(\$ 93,108)

TRS-ActiveCare

Statement of Net Position

(Dollars in Thousands)

	Fiscal Year 2015	Fiscal Year 2014
Total Assets	\$370,343	\$230,641
Total Liabilities	282,528	207,802
Total Net Position	\$ 87,815	\$ 22,839

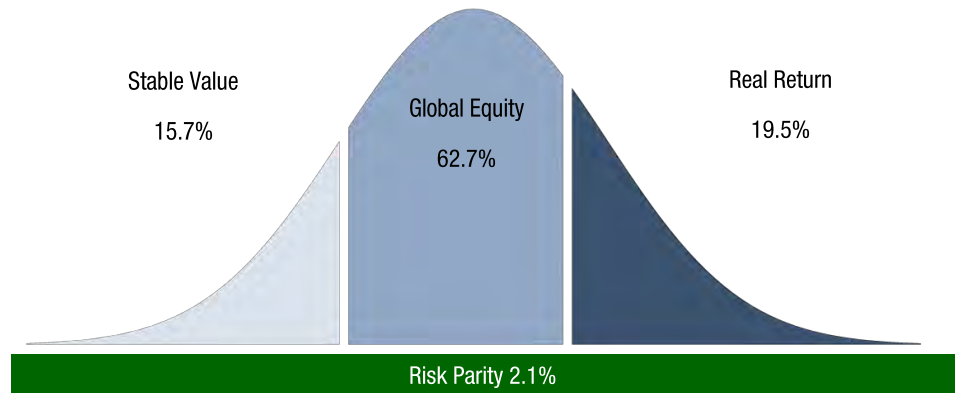
Statement of Changes in Net Position

(Dollars in Thousands)

	Fiscal Year 2015	Fiscal Year 2014
Total Additions	\$1,945,723	\$1,930,054
Total Deductions	1,880,747	1,789,244
Change in Net Position	\$ 64,976	\$ 140,810

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust Company, the system's custodian bank, using industry best practices. When comparing returns, it is important to remember that, as a pension fund, the TRS investment performance has a very long horizon.

Asset Allocation
PENSION TRUST FUND
Aug. 31, 2015



Real Return Portfolio: TRS's inflation-sensitive portfolio, designed to generate returns for the Trust in environments where price-levels are increasing faster than expected. Allocations within this portfolio include Inflation-linked bonds, Commodities, Energy and Natural Resources, and Real Assets.

Stable Value Portfolio: constructed to generate returns in deflationary environments marked by slowing global growth, providing valuable diversification to the rest of the Trust during periods of market stress. This is accomplished by allocations to Long Treasuries, Cash, Absolute Return assets, and Stable Value Hedge Fund strategies.

Risk Parity Portfolio: seeks equal risk exposure across economic conditions, providing the Trust a portfolio that is balanced across varying environments and outcomes. The TRS Risk Parity portfolio is diversified across allocations to nominal bonds, inflation-linked bonds, commodities, public equities, and credit.

TRS investment risks are diversified over a broad range of market sectors and securities. TRS' investment strategy is designed to address four different potential market scenarios and has an advantage in each of them by having a target allocation of 57 percent to global equities, 22 percent to real return, 16 percent to stable value, and 5 percent to risk parity, which has a balanced exposure to all three economic scenarios. Actual allocation percentages, effective Aug. 31, 2015, are shown above. This allocation is designed to minimize downside risk while capturing upside performance in any of the four scenarios. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from future markets.

Global Equity Portfolio: the Trust's key driver of returns in normal economic conditions, marked by steady growth and stable inflation. This portfolio includes publicly listed equities in the US, Developed Non-US and Emerging markets, as well as allocations to the alternative asset classes of equity-sensitive Directional Hedge Funds and Private Equity.

FROM THE CHIEF INVESTMENT OFFICER

“The TRS Pension Fund is the second largest return-seeking enterprise in our state – only the giant corporation Exxon is larger. TRS is expected to earn approximately 8 percent per year. To place that in context, our portfolio is expected to earn about \$5 million per hour. Not only is our portfolio highly diversified, well managed, carefully monitored, and independently calculated, but the people who work for the fund are passionate about producing results for our members. The result is one of the most secure investment portfolios in our country.”

- Britt Harris, CIO

Rate of return
RESULTS for the
total fund for period
ending
Aug. 31, 2015:



1-Year -0.3%



3-Years 8.3%



5-Years 9.6%



10-Years 6.2%

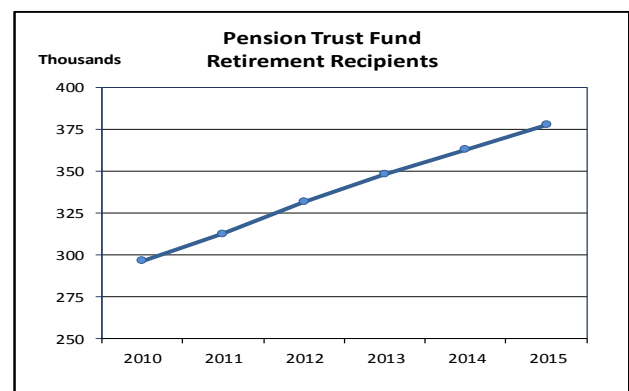
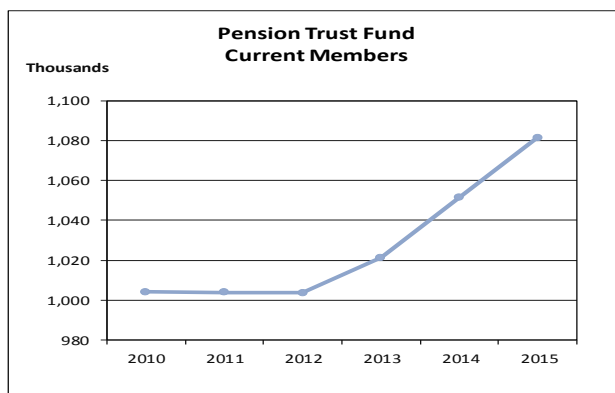
MEMBERSHIP: The Teacher Retirement System of Texas is comprised of Current Members, Retirement Recipients and TRS-Care and TRS-ActiveCare participants. The following tables represent membership data for the fiscal year ended Aug. 31, 2015.

Member Categories	2015	2014
Current Members:		
Active Contributing	828,851	873,214
Active Non-contributing*	-	118,635
Deferred Retirement Option	94	122
Inactive Non-vested	161,295	19,489
Inactive Vested	91,265	39,965
Total Current Members	1,081,505	1,051,425
Retirement Recipients:		
Service	355,384	341,302
Disability	9,495	9,413
Survivor	12,859	12,467
Total Retirement Recipients	377,738	363,182
TOTAL MEMBERSHIP	1,459,243	1,414,607

* For 2015, Active Non-contributing will not be presented as a category. These members are allocated to either Inactive Non-vested or Inactive Vested.

TRS membership includes employees and retirees of state-supported educational institutions in Texas. At Aug. 31, 2015, participating employers included the following:

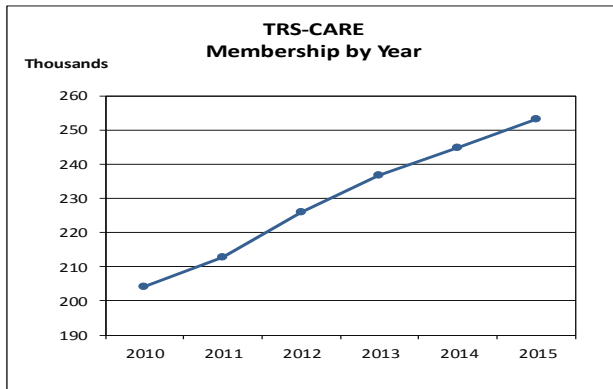
Public School Districts	1,025
Charter Schools	189
Community and Junior Colleges	50
Senior Colleges and Universities	48
Regional Service Centers	20
Medical Schools	9
Other Education Districts	5
State Agencies	1
	1,347



Texas Public School Retired Employees Group Insurance Program (TRS-CARE)

Membership of TRS-Care is eligible to TRS public school retirees.

<u>Member Categories</u>	<u>2015</u>	<u>2014</u>
Retirees	194,619	189,028
Surviving Spouses	6,071	5,910
Surviving Children	105	97
Dependent Spouses and Children	52,236	49,749
TOTAL	253,031	244,784

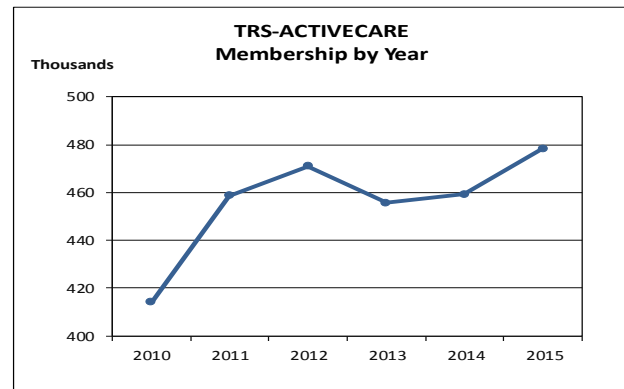


Texas Active School Employees Uniform Group Benefits Program (TRS-ACTIVECARE)

Membership of TRS-ActiveCare includes employees of public school districts, open enrollment charter schools, regional service centers and other educational districts.

<u>Member Categories</u>	<u>2015</u>	<u>2014</u>
Employees	290,354	279,014
Dependents	187,887	180,218
TOTAL	478,241	459,232

As of August 31, 2015 there were 1,110 participating employers.





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